CENTRAL INTELLIGENCE AGENCY

# INFORMATION REPORT



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The following is a translation of the explanation given to members of the Kollegium of the East German Ministry for Heavy Industry on 4 February 1955 of the new financing measures being applied in heavy industry:

1. The production tax (Produktionsabgabe) was introduced in the Ordinance of 6 January 1955. With its introduction, the corporation (Koeperschafts), business (Gewerbe), turnover (Umsatz), and transportation (Befoerderung) taxes as well as consumption levies (Verbrauchsabgaben) which industrial establishments formerly had to pay into the state treasury will be abolished  The production tax will be deducted from the establishment's revenues and accumulated in the state treasury. The tax will thus be the main source of state income from nationalized industry. It will be levied basically only once on a product. The obligation to pay the production tax is tied to the turnover of the item and originates at the moment of turnover of the individual product. The production tax will be levied: 25X1 25X1

a) as a percentage of the industrial selling price (Industrieabgabepreise) or of other legally established selling prices, or

b) in a set amount deducted from the industrial selling price per unit quantity of the product, or

c) in the form of the amount of difference between production cost plus a part of the profits and the industrial selling price.

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The production tax is an inseparable component of the price of a product but cannot be computed in the same way as the former turnover and business taxes.

2. Two other ordinances of 6 January 1955 dealt with the utilization of amortizations (Amortisationen) and profits (Gewinne) in nationalized establishments. In accordance with these ordinances, the centrally managed

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enterprises have been handling their own amortizations for financing general repairs and for complete or partial financing of investments since 1 January 1955. Previously, amortizations which were not for authorised general repairs were paid off by the enterprises to the Deutsche Investitionsbank. This bank provided the establishments with the funds for financing planned investments. However, this procedure did not function as a financial lever for bringing about fulfillment of the amortization plans. By the new ordinance, plant amortizations are to be used for:

a) Contributions to the Fund for General Repairs at main and ancillary installations;

b) Contributions to the Investment Fund; and

c) for discharging to the main administrations whatever sums are still on hand after the contributions indicated under a) and b) were made.

The main administrations are to use the amortisation payments for distribution to enterprises whose own planned yield on amortisations is not sufficient for financing general repairs and investments. Funds of the main administration not required for this purpose are to be used for financing investments in other main administrations. The remainder is to be turned over to the state treasury.

3. Plant profits were formerly paid into the state treasury as investments and the current assets supply (Umlaufsmittelsufuehren) were financed by the state treasury. This procedure also failed to operate as a financial lever for bringing about fulfillment of the profit plan. The new ordinance on the utilisation of profits in nationalized enterprises is expected to remedy this shortcoming. As a result, the utilization of profits in centrally managed establishments has, since 1 January 1955, been planned in the following sequence:

a) for the creation of the Director Fund in the legally established amount;

b) for financing the increase in current assets (Umlaufsmittel);

c) for financing their own planned investments;

d) for payment for further distribution (Umverteilung) throughout the main administration;

e) for payments to the main administration which are to be passed on to the state treasury; this part must amount to not less than 20% of the net profit.

The main administrations must use the part of the profits which is paid to them for further distribution (d), for increases of the current assets (Umlaufsmittel), for subsidies (Stuetzungen), and for investments in establishments whose planned yield is insufficient to finance either of these.

4. When the achieved profit exceeds the planned profit, the excess is to be paid to the main administration, after deduction of payments into the enterprise's Director Fund and payment of the corporation tax. The main administration will turn over half of this amount to the state treasury, while the other half will be put at the disposal of the Ministry's Reserve Fund.

5. Through this new regulation, every enterprise will be economically very much interested in achieving at least its planned profit, because underfulfillment will involve it in substantial difficulties. This new method of self-financing therefore is of the greatest significance. The main administrations will also be under constant pressure through this new procedure. Whoever does not produce the planned proceeds will suffer the most.